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C O N F I D E N T I A L SECTION 01 OF 02 QUEBEC 000225

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SUBJECT: ENERGY ISSUES IN QUEBEC SEEN FROM JAMES BAY

REF: MONTREAL 1435

CLASSIFIED BY: Abigail Friedman, CG, QUEBEC CITY, STATE.
REASON: 1.4 (b), (d)

1. (C) Summary: Hydro-Quebec (HQ) President for Production Thierry Vandal outlined his company's ambitious growth plans for hydroelectric power during a tour of James Bay Radisson generating plant. He stressed HQ's growing energy capacity and need for diversification while emphasizing that the company consults with both aboriginal and environmental groups early on in the design phase so as to avoid controversial delays which have plagued previous project proposals. With an eye fixed on the market and improved revenues for HQ, Vandal indicated their plans include boosting exports of this cheap, secure, and clean energy source to New England. To do so, the Government of Quebec will need to win over a Quebec public increasingly sensitive to the environmental and social impact of energy development. A senior Quebec Ministry of Energy official told CG the next day that January parliamentary hearings on Quebec's future energy development are the first step in getting there. End Summary.

2. (U) DCM, CG Quebec City, ESTOFF and Pol/Econ Asst flew north with Thierry Vandal on December 15 to visit James Bay. The La Grande Riviere hydroelectric project is located at Radisson in the James Bay Territory, which extends over some 350,000 square km between the 49th and 55th parallels and represents one fifth of the province of Quebec. This is mainly Cree territory and taiga, where the forest is sparse, composed mainly of century-old black spruce, jack pine and larch. The boreal trees are too small in diameter for commercial lumbering. The complex is 1,000 km north of Montreal, a 16-hour drive away, but still only halfway to Quebec's northernmost point.

3. (C) Total La Grande annual production is about 62.2 TWh (one billion kilowatt hours), or a bit less than half that in all Quebec. At the Robert-Bourassa substation (one of eight installations along the La Grande river), the generating units provide the HQ power system with a total installed capacity of over 5,000 MW, about one-third of the La Grande complex's capacity and equivalent to the peak winter demand of around 250,000 homes. A dedicated 450 Kv (kilovolt) direct current line runs from the substation to Sandy Point, Massachusetts, with a capacity to supply 3,600 MW to the New England market. Vandal was confident that the HQ system can respond quickly and efficiently to both natural disasters and deliberate sabotage.

4. (C) Vandal said HQ could deliver more electricity to the U.S., but two things are holding it back: (1) the need for the ten U.S. utilities in the northeast that might benefit from Quebec's hydro-energy to upgrade their transmission lines and (2) the need to send some of Radisson's electricity to Quebec consumers. With respect to the latter, Vandal said HQ is looking for ways to increase production from other Quebec sources to free up electricity on the Radisson grid for delivery to the U.S. HQ's interest in the export market is understandable: HQ makes more money selling to the U.S. than to Quebecers. New York consumers pay 15 cents/KWh for electricity whereas Quebec prices are presently fixed at 2.79 cents/KWh (the result of the government-owned HQ's commitment to reconciling profitability with the public interest). Quebecers' electricity bills remain among the lowest in North America.

5. (C) Increased HQ production, according to Vandal, would come from a number of sources including: a project at Toulmoustou, on Quebec's North Shore, scheduled to come on line next year; the commissioning of the SM3 (Ste Marguerite 3) dam located 90 km north of Sept-Iles on the North Shore (originally scheduled for the spring of 2001 but put off several times due to problems of water seepage and turbine damage); a 1,000 MW wind power project in the Gaspi (a total of 660 wind mills representing \$1.9 billion in investments, with an individual capacity of 1.5 MW, in 8 different wind parks); and the possible refurbishing of the core of Quebec's only operating nuclear power plant, Gentilly 2.

6. (C) Vandal argued in favor of both raising prices in Quebec and increasing production. Low prices are encouraging over-consumption of electricity, he said. In an earlier Dec. 7

meeting, Vandal told CG that a consensus seemed to have been reached that the province would no longer be cutting cheap energy deals -that do not make economic sense - to industry (especially aluminum companies) in order to preserve jobs. Vandal expected provincial rates to go up 2.5% per annum until 2007, after which a debate over pricing would have to take place. (Comment: Vandal is a protigi of Hydro-Quebec CEO Andre Cailli, who made a splash recently by calling for an increase of basic electricity rates to 7 cents/KWh. Premier Charest swiftly rejected Cailli's position but the Quebec energy regulatory board (Regie de l'energie) is considering HQ's third request for a hike since Charest was elected. End Comment.)

17. (C) Vandal made a strong pitch in defense of HQ's environmental policies. He noted HQ efforts at La Grande to deal with environmental concerns and the lengths to which HQ goes to respect the native Cree and Inuit habitat and way of life. He negatively cited the Chinese government's massive displacement of population around the Three Gorges Dam Project, saying that "only in China" could this be done. HQ boasted that approximately 1 million caribou roam the James Bay area today, up from only several thousand in the 1950s. (Comment: Vandal did not mention the many environmental issues which have received wide publicity over the years and resonate with the Quebec public, including mercury poisoning of local populations and the drowning of 10,000 caribou in 1984 while trying to cross a swollen river during their migratory trek. The gruesome front-page coverage of bloated carcasses atop one another along the river bank is still deeply engrained in the collective memory of Quebecers. End comment.)

18. (C) Vandal said HQ learned from the Great Whale fiasco (reftel) to engage native communities and NGO's at the front end. The Eastmain-1 (EM1) project, an extension of the James Bay project likely to be completed in 2007, is the result of an agreement reached between the Grand Council of the Crees and HQ back in 2002. HQ has also told the Inuit in North Quebec who want to go forward with the Great Whale project that this simply will not happen since the Cree are not on board.

Comment

19. (C) Vandal painted an ambitious energy future for Quebec. He was confident that the Quebec government would be able to win public support for increased production, increased exports to the U.S. and at least a slight increase in the price charged to Quebec consumers. Vandal's biggest concern, which he raised with us indirectly but unmistakably, is the possibility of environmental issues setting back HQ's agenda. When CG asked Vandal what was the hardest part of his job, he answered, "Getting Ottawa bureaucrats to sign off on our environmental impact statements." What Vandal wants from the U.S. also touches on environmental issues: He regretted that Renewable Portfolio Standards (RPS) applied in many U.S. states exclude large-scale hydroelectric plants.

110. (C) Following the trip to James Bay, CG met separately with Assistant Deputy Minister for Energy Mario Bouchard. Bouchard provided CG with an additional perspective on how the GOQ hopes to get the Quebec public on board the myriad decisions that will have to be made regarding Quebec's future energy direction. The first step will be month-long parliamentary hearings on charting an energy course for Quebec for the next ten years. The hearings begin January 28 and will involve interventions from over 300 interested parties. After this, the GoQ will draft and submit for public comment a document on Quebec's energy orientation. Bouchard hopes the policy document will be released in final by June. We believe that, for the public to buy on to HQ's ambitious program, the government will have to convince Quebecers that increased production and energy export will not come at too high an environmental and social cost to Quebec - a tall, but not impossible, order.

FRIEDMAN